



REFORMED CHURCH UNIVERSITY

FACULTY OF COMMERCE
BACHELOR OF COMMERCE HONOURS DEGREE IN
ACCOUNTING
FINANCIAL ACCOUNTING IIA

HACC 211

PART 2 SEMESTER 1 EXAMINATION

TOTAL MARKS [100]

DATE: OCTOBER 2024

Time: 3 Hours

INSTRUCTIONS

1. This paper has *six (6)* questions
2. Answer question *one (1)* and *any* other *three (3)*
3. Each question carries *25 marks*
4. Start each question on a new page

Question 1

You are employed by Expert Ltd (Expert). Expert provides accounting and tax consulting services to various clients. The International Accounting Standards Board (Board) issued the revised Conceptual Framework for Financial Reporting (Conceptual Framework), a comprehensive set of concepts for financial reporting in March 2023. Your portfolio includes the following two allocated clients who have approached you regarding the recognition of assets and liabilities in terms of the revised Conceptual Framework.

Client 1: Rugare Ltd

On 13 June 2021, Rugare Ltd (Rugare) purchased a holographic touch screen patent from Innovation Ltd (Innovation) at a cost of \$250 million. This patent will give Rugare access to all the patents internationally and locally for the design and manufacture of holographic touch screens. Only Rugare can utilise the patent to design and manufacture the holographic touch screens. This will result in Rugare selling the first holographic touch screen smartphones and it will ensure that Rugare is the only designer and manufacturer of such smartphones. Rugare will manufacture all the other components of the smartphones and it will assemble the holographic touch screen smartphones and it is estimated that 90 million holographic touch screen smartphones will sell within the next financial year at a satisfactory profit margin.

Client 2: Bay Homes Ltd

Bay Homes Ltd (Sea Homes) is a new real estate agency that specialises in selling holiday homes for the upper middle-class market. Bay Homes is operating on the South of the Harare region of Zimbabwe. As part of its expansion strategy, a decision has been taken by the directors of the company to open a new office on the North of the Harare region.

Bay Homes paid \$40 000 to Mhlanga News to advertise holiday homes for sale in the newspaper to appear during January 2022. This amount was paid on 15 December 2023.

Required:

Discuss, in terms of The Conceptual Framework for Financial Reporting 2023, whether the patent (refer to client 1) and payment to Mhlanga News (refer to client 2) may each be recognised as an asset in the financial statements of Rugare Ltd and Bay Homes Ltd for the year ended 31 December 2023.

NB: Your answer must comply with International Financial Reporting Standards (IFRS).
(25 marks)

Question 2

Vintage Ltd

Vintage Ltd specialises in the purchase of wine from wine regions around the world. The company acquires superior wine from boutique farms, some of which they will store to age before it is sold to customers.

For the financial year ended 30 June 20.13, the company's inventory consisted of the following:

(a) Aged wines

Description	Years To Mature	Aging Completed	Cost	Market
			\$	\$
Cabernet Sauvignon	4 – 20 years	30%	800 000	1 600 000
Pinot Noir	2 – 8 years	60%	750 000	1 750 000
Merlot	2 – 10 years	0%	350 000	680 000
Chardonnay	2 – 6 years	50%	454 000	660 000
			2 354 000	4 690 000

(b) Wines available for sale at date of purchase

Vintage Ltd has a variety of wines with little to no aging potential. These wines are immediately available for sale and usually sell within a year from the time they have been purchased.

Description	Cost	Market Value
	\$	\$
Variety of white wines	500 000	630 000
Rosé and blush wines	450 000	575 000
	950 000	1 205 000

(c) Investment wines

Mr Vin Tage, owner of Vintage Ltd, has a valued appreciation for exceptional wines and travels the world in order to obtain prized wines for Vintage Ltd's collection of investment wines. These wines are considered by some to be Veblen goods; Veblen goods are goods for which the Dumand increases, rather than decreases, when the price thereof rises.

Description	Cost	Market Value
	\$	\$
Bordeaux	900 000	1 800 000
Burgundy	250 000	700 000
Vintage port	1 000 000	2 100 000
	2 150 000	4 600 000

Mr Tage is known for his prestigious collection of investment wines which has been collected over many years. It is only a rare few customers who have been able to purchase any of these wines from Vintage Ltd.

Required:

- a) Disclose the above items in the statement of financial position of Vintage Ltd for the year ended 30 June 2023. (10 marks)
- b) For each line-item disclosed in terms of (a) above, discuss the following:
 - i. The reason the item was classified as current or non-current. (5 marks)
 - ii. The disclosure of the line item itself. (10 marks)

NB: Your answer must comply with International Financial Reporting Standards (IFRS).

Question 3

Tingling Limited's year-end inventory at the 31 December amounted to \$164,300 valued at cost. However, some inventory items were damaged prior to year-end and will require repair work that will cost an estimated \$1,280. When repaired, the items can be sold for 90% of cost. The cost of these damaged goods was \$2,400.

- i. Calculate the value of inventory at 31 December (10 marks)
- ii. Show the journal entry to record the value of closing inventory (5 marks)
- iii. Show the amount of closing inventory in an extract of the Statement of Comprehensive Income (5 mark)
- iv. Show the value of inventory in an extract of the Statement of Financial Position (5 mark)

Question 4

Justice Public Limited Company trial balance at 30 June 2023 was as follows:

	USD\$000	USD\$000
Freehold premises	2,400	
Plant and machinery	1,800 540	
Furniture and fittings	620 360	
Inventory at 30 June 2023	1,468	
Sales		6,465
Administrative expenses	1,126	
Ordinary shares of USD\$1 each		4,500
Trade investments		365
Revaluation reserve		600
Development cost		415
Share premium		500
Personal ledger balances		947 566
Cost of goods sold		4,165
Distribution costs	669	
Overprovision for tax	26	
Dividend received	80	
Interim dividend paid	200	
Retained earnings	488	
Disposal of warehouse	225	
Cash and bank balances	175	

The following information is available:

1. Freehold premises acquired for USD\$1.8 million were revalued in 2020, recognising a gain of USD\$600,000. These include a warehouse, which cost USD\$120,000, was revalued at USD\$150,000 and was sold in June 2023 for USD\$225,000. Phoenix does not depreciate freehold premises.
2. Justice wishes to report Plant and Machinery at open market value which is estimated to be USD\$1,960,000 on 1 July 2022.
3. Company policy is to depreciate its assets on the straight-line method at annual rates as follows:
 - Plant and machinery 10%
 - Furniture and fittings 5%
4. Until this year the company's policy has been to capitalise development costs, to the extent permitted by relevant accounting standards. The company must now write off the development costs, including USD\$124,000 incurred in the year, as the project no longer meets the capitalisation criteria.
5. During the year the company has issued one million shares of USD\$1.00 at USD\$1.20 each.
6. Included within administrative expenses are the following:

Staff salary (including USD\$125,000 to directors)	USD\$468,000
Directors' fees	USD\$96,000
Audit fees and expenses	USD\$86,000
7. Income tax for the year is estimated at USD\$122,000.
8. Directors propose a final dividend of 4c per share declared and an obligation, but not paid at the year-end.

Required:

In respect of the year ended 30 June 2023 to prepare:

- (a) The statement of comprehensive income.
- (b) The statement of financial position as at 30 June 2023.
- (c) The statement of movement of property, plant and equipment

(25 marks)

Question 5

At 1 April 2021, HD Co carried its office building in its financial statements at its original cost of \$2million less accumulated depreciation of \$400,000 (based on its original life of 50 years). HD Co revalued the office building on 1 October 2021 to its fair value of \$2.2m. The remaining useful life was reassessed at the time of valuation and is considered to be 40 years at this date. The company's policy is to make a transfer to retained earnings in respect of excess depreciation.

Required:

(a) Prepare any necessary journal entries to account for this building during the year ended 31 March 2022. (15 marks)

(b) Prepare extracts from the following financial statements for the year ended 31 March 2022: (10 marks)

Question 6

a) Giving examples, explain an **asset** in the Financial Accounting context. (10marks)

b) Explain the essence of an economic resource. (15 marks)

N.B: Base your answer on the conceptual framework for financial reporting

END OF PAPER

